

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SS-15 SP-02 EB-08 INR-10 EA-10
NSCE-00 TRSE-00 OMB-01 /059 W
-----109286 232158Z /73 S
R 231934Z MAR 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 9065
INFO AMEMBASSY ANKARA
AMEMBASSY BONN

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USOECD

PASS AID

E.O. 11652: N/A
TAGS: TU, GW, EFIN, EAID
SUBJECT: TURKEY - DISCUSSION WITH CONSORTIUM CHAIRMAN
GIEL

REF: BONN 5139 DATED MARCH 21, 1978

1. SUMMARY: WITH THE IMF AGREEMENT APPARENTLY NOW
BEING CONCLUDED, OECD CONSORTIUM CHAIRMAN FEELS IT TIMELY
TO EXPLORE IN DETAIL WHAT THE FUTURE ROLE, IF ANY, OF
CONSORTIUM SHOULD BE. AT TURKS' REQUEST HE WILL VISIT
ANKARA AFTER IMF ACCORD CONCLUDED, THEN PLANS TO CALL
INFORMAL MEETING OF CONSORTIUM COUNTRIES HERE ON OR
ABOUT APRIL 10 TO PRESENT HIS IDEAS AND PERMIT MEMBERS
TO DISCUSS HOW TO PROCEED. END SUMMARY.

2. TURKEY CONSORTIUM CHAIRMAN GIEL, WHO HAD JUST
ARRIVED HERE FROM BONN, REQUESTED IMMEDIATE INFORMAL
MEETING WITH MISSION OFFICER ON MARCH 22, AND IN HOUR-
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LONG, RAMBLING CONVERSATION MADE THE FOLLOWING POINTS:

A. NOW THAT THE TURKISH AGREEMENT WITH THE IMF
IS BEING FINALIZED (HE EXPECTED IT TO BE SIGNED IN
WASHINGTON TODAY OR TOMORROW), AND COMMERCIAL BANKS
ARE MAKING SOME ADDITIONAL FUNDS AVAILABLE, THE CON-
SORTIUM MEMBERS SHOULD CONSIDER WHAT TO DO TO HELP THE

TURKS. IT IS INCONCEIVABLE TO HIM THAT THE CONSORTIUM DO NOTHING NOW THAT THE IMF HAS ACTED. HE IS ALSO BEING PRESSED BY OECD SEC GEN VAN LENNEP AND SOME MEMBER GOVERNMENTS -- INCLUDING GERMANY AND THENETHERLANDS -- TO DEFINE FUTURE ROLE FOR THE CONSORTIUM.

B. HE CLAIMS THAT THE GERMAN GOVERNMENT'S POSITION ON TURKEY'S FINANCIAL SITUATION NOW IS REASONABLY UNIFIED UNDER LEADERSHIP OF THE FOREIGN MINISTRY (ESPECIALLY SECRETARY GENERAL HERMES). PREVIOUSLY, VARIOUS MINISTRIES -- FINANCE, ECONOMICS, ETC. -- HAD DIFFERED WITH THE FOREIGN MINISTRY, BUT UNIFIED POSITION HAS EMERGED AS A RESULT OF SOME FRANK MEETINGS IN BONN. THE FOREIGN MINISTRY WANTS GIEL TO BECOME MORE AGGRESSIVE IN SEEKING WAYS TO HELP THE TURKS. GIEL SAID THE GERMANS STILL DO NOT QUITE UNDERSTAND THE WHYS AND WHEREFORES OF RECENT U.S. THINKING REGARDING THE CONSORTIUM.

C. GIEL AND HIS ASSOCIATE, KUEHN, WILL VISIT ANKARA AT THE INVITATION OF THE TURKS SOMETIME IN THE NEXT WEEK OR TWO TO DISCUSS THE POSSIBLE CONSORTIUM ROLE. EXACT DATES OF THIS VISIT DEPEND ON THE RETURN OF THE FINANCE MINISTER AND HIS ASSOCIATES FROM WASHINGTON.

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D. WITH IMF AGREEMENT CONCLUDED AND UPON HIS RETURN FROM ANKARA, GIEL WILL CALL AN INFORMAL MEETING OF CONSORTIUM COUNTRY LOCAL DELEGATIONS HERE AT OECD WHICH SHOULD BE AROUND APRIL 10. REPRESENTATION FROM CAPITALS WOULD OF COURSE BE WELCOME. THE TURKS WILL NOT BE INVITED OR PARTICIPATE, BUT WILL BE INFORMED THE MEETING IS TAKING PLACE.

E. THE PURPOSE OF THIS MEETING WILL BE THREEFOLD:

- (I) TO REVIEW THE FACTS OF TURKEY'S SHORT-TERM FINANCIAL SITUATION;
- (II) TO ADVISE CONSORTIUM MEMBERS REGARDING GIEL'S CONVERSATIONS IN ANKARA AND THE POSITION OF THE TURKS CONCERNING THE CONSORTIUM;
- (III) TO DETERMINE WHAT, IF ANYTHING, CONSORTIUM MEMBERS SHOULD CONSIDER DOING NEXT, AND IN WHAT TIME CONTEXT.

F. GIEL STRESSED THAT IN HIS VIEW THE INITIAL TASK OF THE CONSORTIUM MEMBERS MUST BE TO CONSIDER

NOTE BY OC/T: DISSEMINATION COORDINATED WITH S/S-O, MR. CEURVORST.

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NSCE-00 TRSE-00 OMB-01 /059 W
-----109250 232159Z /73 S

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SOFTENING THE REPAYMENT TERMS OF GOVERNMENT GUARANTEED DEBT AND OUTSTANDING DEVELOPMENT LOANS. GOVERNMENT HELD DEBT OR COMMERCIAL GUARANTEED DEBTS ALREADY OUTSTANDING OR BECOMING DUE IN THE NEXT SEVERAL MONTHS IS DIVIDED AMONG NUMEROUS CONSORTIUM CREDITORS SUCH AS GERMANY, U.S., U.K., SWITZERLAND, FRANCE, BELGIUM, ETC., IN ADDITION TO OTHERS SUCH AS IRAQ AND BLOC COUNTRIES NOT MEMBERS OF THE CONSORTIUM. NO ONE CREDITOR APPEARS TO HOLD A MAJOR SHARE OF THE DEBT, ALTHOUGH THAT DUE TO GERMANY APPEARS TO BE THE LARGEST. SOME OF THE COMMERCIAL DEBT THAT APPEARS TO BE IN ARREARS NO DOUBT HAS BEEN PAID THROUGH BLACK MARKET OPERATIONS, BUT THERE IS NO CLEAR FIX ON THE MAGNITUDES. GIEL HOPES THAT CONSORTIUM MEMBERS WILL BE ABLE TO GIVE AN INDICATION OF THE SIZE OF GOVERNMENT HELD DEBT AND GUARANTEED COMMERCIAL DEBT, BOTH IN ARREARS AND BECOMING DUE, AT THE APRIL MEETING.

G. IT IS TOO EARLY FOR CONSORTIUM MEMBERS TO CONSIDER TURKEY'S LONG-RUN DEVELOPMENT SITUATION AND OUTSIDE FINANCING NEEDS. BUT THE TURKS, WHO DO
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APPEAR TO WANT AN EARLY MEETING OF THE CONSORTIUM, MAY BE HOPING FOR LONG-TERM DEVELOPMENT CREDITS AT AN EARLY DATE, AND GIEL EXPECTS THAT HE WILL HAVE TO DISSUADE THEM FROM ANY SUCH HOPE ON HIS FORTHCOMING TRIP. (THE ONLY DEVELOPMENT AID HE EXPECTS WILL BE OFFERED TO TURKEY IN THE NEAR FUTURE IS A POSSIBLE DM50 MILLION COMMITMENT IN THE CONTEXT OF THE PRIME MINISTER'S VISIT TO GERMANY IN MAY.)

H. THERE IS ALSO A SUBSTANTIAL AMOUNT OF NON-GUARANTEED CREDITS OUTSTANDING TO BANKS AND COMPANIES RESIDENT IN CONSORTIUM COUNTRIES. THE VARIOUS BANKS INVOLVED HAVE BEEN ROLLING OVER PORTIONS OF THESE OBLIGATIONS AS THEY BECOME DUE, AND MAKING SOME SMALL FRESH COMMITMENTS IN PART TO PERMIT REPAYMENTS ON PAST DEBTS. WE CAN EXPECT THAT THESE ACTIONS WILL NOW BE STEPPED UP IN LIGHT OF THE IMF AGREEMENT. IF AND WHEN THE REPAYMENT TERMS OF GOVERNMENT HELD AND GUARANTEED DEBT IS SOFTENED BY CONSORTIUM MEMBERS, THE BANKS CAN BE EXPECTED TO INCREASE SUCH NON-GUARANTEED COMMITMENTS EVEN FURTHER.

I. GIEL WILL TRY TO CONVINCE JAPAN TO JOIN THE CONSORTIUM, OR AT LEAST PARTICIPATE IN CONSORTIUM MEETINGS BECAUSE IT IS NOW AN IMPORTANT CREDITOR OF TURKEY. AS A CONDITION OF ANY RELIEF PROVIDED THROUGH THE CONSORTIUM, MEMBERS SHOULD ALSO INSIST THAT TURKEY GET SOME RELIEF ON ITS OBLIGATIONS DUE TO IRAQ AND BLOC COUNTRIES. GIEL DID NOT MENTION AND USOECD OFFICER DID NOT BRING UP POSSIBLE FUTURE ROLE OF SAUDIS AND OTHER ARABS IN ASSISTING TURKS.

J. HE CLAIMS THAT BOTH THE IMF AND THE TURKS LIMITED OFFICIAL USE

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DO NOT FAVOR USE OF THE PARIS CLUB. THIS IS BECAUSE THEY VIEW THAT PARIS CLUB AS A VEHICLE USED PRIMARILY IN BANKRUPTCY OR NEAR BANKRUPTCY SITUATIONS, AND TURKEY HAS NOT QUITE REACHED THAT STAGE, OR AT LEAST IT IS BEST POLITICALLY NOT TO CONSIDER ITS SITUATION IN THAT LIGHT. HE FEARS THAT IF NEGOTIATIONS TOOK PLACE IN CONTEXT OF THE PARIS CLUB, THE BIG INTERNATIONAL COMMERCIAL BANKS PROBABLY WOULD SUBSTANTIALLY REDUCE FRESH COMMITMENTS PENDING OUTCOME OF THE NEGOTIATIONS,

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-----109184 232159Z /73 S
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THEREBY ADDING TO THE CURRENT PROBLEM, WHEREAS ROLL-
OVER OF GOVERNMENT HELD AND GUARANTEED DEBT IN CONTEXT
OF THE CONSORTIUM NEED NOT HAVE THIS RESULT IF WE
PROCEED DISCREETLY AND WISELY. HOWEVER, HE EXPECTS
THAT CONSORTIUM MEMBERS WILL DISCUSS THE PRO'S AND
CON'S OF USE OF THE PARIS CLUB AT THE APRIL MEETING.

3. COMMENT: GIEL OBVIOUSLY FEELS UNDER PRESSURE TO
DO SOMETHING IN HIS ROLE AS CONSORTIUM CHAIRMAN --
HE IS BEING CRITICIZED BY SOME FOR BEING TOO FORWARD,
BY OTHERS FOR DOING NOTHING. NOW THAT THE IMF AGREEMENT
APPARENTLY IS BEING NAILED DOWN NAD HE FEELS HE HAS A
REASONABLY FIRM AND UNIFIED UNDERSTANDING WITH HIS OWN
GOVERNMENT IN BONN, HE HAS DECIDED TO ACT AND CALL THE
APRIL MEETING. IN HIS VIEW, IF CONSORTIUM MEMBERS WANT
TO QUESTION THE ROLE OF THE CONSORTIUM AND CONSIDER
THE USE OF OTHER MECHANISMS FOR DEALING WITH TURKISH
SITUATION, THEY CAN TRY TO RESOLVE SUCH ISSUES AT THE
MEETING AND HE WOULD NO LONGER BE IN THE MIDDLE OF FRE-
QUENTLY CONFLICTING VIEWS AND REMARKS. END COMMENT.

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4. WE WOULD APPRECIATE COMMENTS ON THE ABOVE FROM ANY
ADDRESSEES, AND APPROPRIATE GUIDANCE.
SALZMAN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CONSORTIUMS, COMMITTEE MEETINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 23 mar 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978PARIS10034
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780129-0168
Format: TEL
From: PARIS USOECD
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780332/aaaabasb.tel
Line Count: 281
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 61bad7be-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 BONN 5139
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3225169
Secure: OPEN
Status: NATIVE
Subject: TURKEY - DISCUSSION WITH CONSORTIUM CHAIRMAN GIEL
TAGS: EFIN, EAID, TU, GE
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/61bad7be-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014